

**Program Proposed Budget**

The following table summarizes the executive budget proposal for this program by year, type of expenditure, and source of funding.

Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	52.00	(0.75)	17.00	68.25	(0.75)	17.00	68.25	68.25
Personal Services	2,291,742	210,123	794,042	3,295,907	208,855	791,854	3,292,451	6,588,358
Operating Expenses	5,809,215	188,641	1,939,314	7,937,170	189,632	1,995,330	7,994,177	15,931,347
Grants	19	0	597,918	597,937	0	1,304,061	1,304,080	1,902,017
Benefits & Claims	347,662,820	62,855,451	29,582,279	440,100,550	91,436,630	32,752,853	471,852,303	911,952,853
Transfers	0	0	0	0	0	0	0	0
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
<b>Total Costs</b>	<b>\$355,766,078</b>	<b>\$63,254,215</b>	<b>\$32,913,553</b>	<b>\$451,933,846</b>	<b>\$91,835,117</b>	<b>\$36,844,098</b>	<b>\$484,445,293</b>	<b>\$936,379,139</b>
General Fund	71,665,419	26,095,143	(316,873)	97,443,689	34,406,536	(137,313)	105,934,642	203,378,331
State/Other Special	5,428,379	2,213,254	10,721,994	18,363,627	2,726,406	11,202,797	19,357,582	37,721,209
Federal Special	278,672,280	34,945,818	22,508,432	336,126,530	54,702,175	25,778,614	359,153,069	695,279,599
<b>Total Funds</b>	<b>\$355,766,078</b>	<b>\$63,254,215</b>	<b>\$32,913,553</b>	<b>\$451,933,846</b>	<b>\$91,835,117</b>	<b>\$36,844,098</b>	<b>\$484,445,293</b>	<b>\$936,379,139</b>

**Program Description**

The Health Resources Division (HRD) administers Medicaid primary care services, children's mental health services, the Children's Health Insurance Program (CHIP), and children's special health services. The purpose of the division is to improve and protect the health and safety of Montanans. The division provides a wide range of preventive, primary, and acute care services to individuals and communities. Services are provided through a broad range of private and public providers, including physicians, public health departments, clinics, and hospitals.

Acute and primary care services are provided through the Medicaid program and CHIP and services for children with special health care needs. The division contracts with over 700 nonprofit providers for the delivery of health care services. Medicaid is a voluntary state/federal partnership to provide and finance these services to the aged, blind, disabled, or low-income families.

The division administers CHIP as a separate health insurance program and contracts with an insurance plan to provide medical services. CHIP dental and eyeglasses benefits are administered by the department.

**Program Highlights**

Health Resources Division (HRD) Major Budget Highlights	
<ul style="list-style-type: none"> <li>Medicaid caseload and service utilization changes add \$150 million, including \$29 million general fund</li> <li>Medicaid matching rates changes add \$30 million general fund and reduce federal funds by a like amount <ul style="list-style-type: none"> <li>\$15 million is due to the termination of the temporary 2.95 percent federal match rate increase in FY 2004</li> <li>\$15 million is due to annual changes in federal Medicaid match rates based on changes in each state's per capita income compared to national per capita</li> </ul> </li> <li>Executive proposal increases CHIP funding nearly \$5 million over FY 2004 base budget expenditures <ul style="list-style-type: none"> <li>Executive budget shifts CHIP state match from tobacco settlement funds to private donations and also increases</li> </ul> </li> </ul>	

<p>general fund match by \$1 million annually above the FY 2004 base budget</p> <ul style="list-style-type: none"> <li>Executive used donations as a “place holder” in anticipation of passage of I-149 (\$1 per pack cigarette tax increase) and anticipated that increased cigarette tax revenue would fund the CHIP match</li> <li>Executive budget includes an annual 10 percent premium increase in CHIP coverage, the first time that such increases have been included in the budget</li> <li>Funding for 17.00 new FTE <ul style="list-style-type: none"> <li>7.00 FTE to help develop a children’s system of care</li> <li>5.00 FTE for children’s mental health regional representation</li> <li>5.00 FTE for analysis of Medicaid program costs and management of the passport and pharmacy programs</li> </ul> </li> </ul>
<b>Major LFD Issues</b>
<ul style="list-style-type: none"> <li>State match for CHIP heavily reliant on private donations, which are not likely to materialize <ul style="list-style-type: none"> <li>Implied executive policy to fund CHIP state match with new \$1 per pack cigarette tax does not comply with statutory requirement that the new tax proceeds be used to fund CHIP enrollment “above existing levels”</li> </ul> </li> <li>The option for HRD administration of CHIP rather than a contractor, which involves: <ul style="list-style-type: none"> <li>State assumption of some level of financial risk</li> <li>Funding for additional FTE and contracted costs to pay claims</li> <li>Discontinuation of contracting with a private company to administer services</li> <li>Depending on cost comparison, potential ability to cover additional children at less cost per child</li> </ul> </li> <li>Lack of timely or no response for information requests about the executive budget request</li> <li>Some of the major LFD issues related to the HRD budget request are discussed in the DPHHS overview including: <ul style="list-style-type: none"> <li>Impact of the Medicare Modernization Act (MMA) on Medicaid caseload costs due to increased number of eligible persons and potential cost shift</li> <li>Impact of the MMA clawback payment to the federal government</li> <li>Increased administrative complexity due to the MMA</li> <li>Medicaid redesign issues</li> <li>Children’s system of care issues</li> <li>Cost increases for regular Medicaid state plan services associated with eligibility expansion for developmentally disabled and physically disabled Medicaid waiver services, as well as the Medicaid redesign proposal for waiver of parental income for seriously emotionally disturbed children to receive Medicaid services</li> </ul> </li> </ul>

**Program Narrative**

The HRD 2007 biennium budget request grows \$225 million in total funds, including \$60 million general fund, above the FY 2004 base budget. Almost all of the growth is in the Medicaid services budget. Expenditures for Medicaid and CHIP services are 98 percent of the FY 2004 base budget and decline to 97 percent in the 2007 biennium. The Medicaid services function comprises 81 percent of the total division budget request in FY 2007, while children's mental health functions are 14 percent and children's health care resources are 5 percent.

Figure 46 shows the HRD budget request by major function and service compared to base budget expenditures.

The HRD budget proposal did not allocate Medicaid caseload and state matching funding changes among the major Medicaid services, so the information in Figure 46 is misleading with respect to changes proposed by the executive for the 2007 biennium. The caseload and matching fund changes for most of the Medicaid services is allocated to hospital services, overstating changes to that service level and understating changes to other service levels.

**Figure 46**  
**Fiscal 2004 Base Budget Compared to 2007 Biennium Executive Request**  
**Health Resources Division**

Major Function and Services	FY 2004 Base Budget				FY 2006 Executive Request				FY 2007 Executive Request				% of Total
	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	General Fund	SSR	Federal	Total	
<b>Major Function</b>													
Medicaid Services	\$58,402,303	\$9,855,396	\$237,772,162	\$306,029,861	\$82,621,745	\$14,987,925	\$266,780,058	\$364,389,728	\$90,976,715	\$15,337,413	\$287,426,761	\$393,740,889	81%
Children's Health Resources	493,360	2,656,626	14,305,121	17,455,107	1,625,858	3,142,150	18,574,158	23,342,166	1,551,842	3,786,617	19,736,156	25,074,615	5%
Children's Mental Health	<u>12,769,756</u>	<u>233,552</u>	<u>48,974,210</u>	<u>61,977,518</u>	<u>13,196,086</u>	<u>233,552</u>	<u>50,772,314</u>	<u>64,201,952</u>	<u>13,406,085</u>	<u>233,552</u>	<u>51,990,152</u>	<u>65,629,789</u>	<u>14%</u>
Total Division Budget*	<u>\$71,665,419</u>	<u>\$12,745,574</u>	<u>\$301,051,493</u>	<u>\$385,462,486</u>	<u>\$97,443,689</u>	<u>\$18,363,627</u>	<u>\$336,126,530</u>	<u>\$451,933,846</u>	<u>\$105,934,642</u>	<u>\$19,357,582</u>	<u>\$359,153,069</u>	<u>\$484,445,293</u>	<u>100%</u>
Percent of Total	19%	3%	78%	100%	22%	4%	74%	100%	22%	4%	74%	100%	
Compounded Annual Rate of Change					17%	20%	6%	8%	9%	5%	7%	7%	
<b>Benefits</b>													
<u>Medicaid Services</u>													
Hospital Services	\$25,797,781	\$894,549	\$73,713,044	\$100,405,373	\$49,839,188	\$3,469,373	\$86,915,599	\$140,224,160	\$57,324,207	\$3,381,324	\$98,179,636	\$158,885,167	34%
Hospital Utilization Fee*	0	7,317,195	22,379,213	29,696,408	0	8,874,661	21,424,625	30,299,286	0	9,312,437	21,812,018	31,124,455	7%
Pharmacy Services	17,018,984	0	53,838,718	70,857,702	15,853,814	0	50,485,416	66,339,230	16,184,625	0	51,344,480	67,529,105	14%
Children's Mental Health Svcs	12,432,654	233,552	48,171,045	60,837,251	12,601,971	233,552	48,595,849	61,431,371	12,812,420	233,552	49,064,809	62,110,781	13%
Acute Services	5,142,160	1,636,104	25,765,533	32,543,797	5,142,427	1,636,104	33,272,801	40,051,332	5,142,427	1,636,104	34,496,327	41,274,858	9%
Managed Care Services	5,114,476	0	21,766,590	26,881,066	5,041,251	0	21,589,815	26,631,066	5,039,676	0	21,516,589	26,556,265	6%
Medicare Buy-In	2,949,965	0	9,295,635	12,245,600	3,755,093	0	11,269,686	15,024,779	4,074,156	0	11,936,317	16,010,473	3%
Cervical and Breast Cancer	297,774	0	1,269,896	1,567,670	464,474	0	1,871,401	2,335,875	565,288	0	2,286,039	2,851,327	1%
Indian Health Services	0	0	26,652,410	26,652,410	0	0	36,232,971	36,232,971	0	0	42,246,203	42,246,203	9%
<u>CHIP</u>	319,477	2,656,626	12,695,848	15,671,951	1,445,816	2,942,150	17,142,781	21,530,747	1,277,872	3,586,617	18,399,446	23,263,935	5%
Adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(267)</u>	<u>(267)</u>	<u>0</u>	<u>0</u>	<u>(267)</u>	<u>(267)</u>	<u>0%</u>
Total Benefits*	<u>\$69,073,271</u>	<u>\$12,738,026</u>	<u>\$295,547,931</u>	<u>\$377,359,228</u>	<u>\$94,144,033</u>	<u>\$17,155,840</u>	<u>\$328,800,944</u>	<u>\$440,100,550</u>	<u>\$102,420,671</u>	<u>\$18,150,034</u>	<u>\$351,281,865</u>	<u>\$471,852,303</u>	<u>100.0%</u>
Percent of Total Benefits	18%	3%	78%	100%	21%	4%	75%	100%	22%	4%	74%	100%	
Compounded Annual Rate of Change					17%	16%	5%	8%	9%	6%	7%	7%	
Percent of Total Division	96%	100%	98%	98%	97%	93%	98%	97%	97%	94%	98%	97%	

\*Expenditures from the hospital utilization fee authorized by HB 481 by the 2003 Legislature were removed from the FY 2004 base budget. Since the 2007 biennium executive request includes this expenditure and DPHHS has requested legislation to continue the fee, the FY 2004 amount is shown for information purposes in the benefits section of the table. Including this expenditure makes the totals listed in this table higher than the amounts listed in the table generated by the automated budget system table and printed at the beginning of the HRD budget narrative.

**LFD  
ISSUE**

Lack of Information – LFD staff routinely requests information from state agencies and the Office of Budget and Program Planning regarding the executive budget request. Clarifying the executive budget is necessary to identify policy and fiscal issues, as well as programmatic and management issues for legislative consideration. This process also gives agency staff and LFD staff the opportunity to correct errors, both in the executive and legislative analysis, and frame a discussion of issues that allows the legislature to be more productive.

In some instances LFD information requests are routine and clarify the request. In other instances, LFD staff requests can be complex and may require more time to complete than is available prior to publication of the budget analysis. However, one of the most important goals of receiving information that clarifies the executive request is to ensure that the LFD analysis centers on policy issues and does not waste the legislature's time dealing with factual issues that can be resolved and cleared up prior to or outside of legislative meeting time.

LFD staff made several requests for information regarding the HRD budget proposal, most of which were routine and would have provided the basis upon which budget requests were built and funded. In many instances information was either not provided or the information was provided too late to be included in the budget analysis. Additionally, it should be noted that the information requested is public information.

While staffing, vacancy issues, and workload have been a concern for the division, some of the issues related to timeliness of information availability and completeness of responses are due to the lengthy review and editing process adopted both by the HRD, and in some instances the department. In some instances, for example the allocation of the executive request among Medicaid services, the information was not provided even though it seems as if that information should have existed in some form in order for the executive budget to be developed and that providing the information should be a fairly routine task that would require little review. The same observation can be made about information requests related to the executive proposal to expand CHIP mental health services.

The legislature may wish to ask HRD and DPHHS how the division and agency can address staffing issues and review and edit processes in order to facilitate access to routine information. Actions to improve both parts of the issue will enhance legislative deliberations and help the legislature focus on policy issues rather than issues related to access to information related to budget analysis. Information flow processes need to work substantially better than those that existed during budget analysis if LFD staff is to provide timely and accurate staff work for the legislature.

*Medicaid Services*

Medicaid services administered by HRD are commonly referred to as “state plan” services, meaning that all Medicaid eligible persons are eligible for state plan services, which include services such as hospital, physician, pharmacy, dental, physical therapy, speech therapy, and dental services. The division also administers children's mental health services and special health services for low-income children.

Medicaid services are funded by a combination of general fund, state special revenue, and federal Medicaid funds. State special revenue includes tobacco settlement revenues, interest income from the tobacco settlement constitutional trust fund, and payments from insurance companies for Medicaid eligible persons with private insurance. The executive budget also includes a proposal to divert tobacco settlement funds from tobacco prevention and control to fund Medicaid matching funds, which requires legislation.

Medicaid funded hospital services are the largest expenditure component shown in base budget expenditures, with \$100 million for services and \$30 million in additional reimbursements from the hospital utilization fee imposed by HB 481 approved by the 2003 Legislature (15-66-102, MCA). Hospitals proposed the fee, which was approved by the Centers for Medicare and Medicaid Services (CMS). The fee income was used to draw down additional federal Medicaid matching funds to increase Medicaid payment rates. Figure 46 includes these payments even though they were removed from the HRD base budget as a one-time expenditure, since the utilization fee was imposed only during the 2005 biennium. HRD is proposing that the fee be continued and has requested legislation to do so (LC 135).

Pharmacy services have grown rapidly over the years, projected to exceed \$100 million annually during the 2005 biennium. However, part of Medicaid pharmacy costs are offset by rebate payments made by drug manufacturers as a condition of participating in the Medicaid program. Pharmacy costs recorded in the state accounting system reflect the net of expenditures less rebates. Historically, rebates have ranged from 18 to 20 percent of total pharmacy costs.

**LFD  
COMMENT**

Impact of Medicare Modernization Act and Pharmacy Costs– DPHHS will be required to make a payment (“clawback”) to the federal government for costs of the Medicare drug benefit (Part D) for persons who eligible for both Medicare and Medicaid. However, the executive budget submission does not include the anticipated effect of the clawback, because of the lack of federal guidance in administering Part D. There is a chance that the clawback amount could exceed the reduction in state Medicaid pharmacy costs that shift to Part D. This issue is discussed more fully in the agency overview.

Total pharmacy costs appear to decline from the FY 2004 base budget through the 2007 biennium. The information in the table reflects anticipated cost savings compared to the base budget for pharmacy services, but does not include the cost increases for caseload and utilization growth. However, that is probably not the case. As noted earlier, HRD did not provide information to allocate the executive budget request for Medicaid cost growth and state match rate changes among Medicaid services.

### Pharmacy Cost Containment

The amount for Medicaid pharmacy costs in Figure 1 shows base budget expenditures rolled forward without utilization and caseload increases and without the effect of the Medicaid match rate change. However, the executive budget proposal does include a reduction due to recent pharmacy changes, primarily due to anticipated implementation of a preferred drug list (PDL) and joining a multi-state purchasing pool. Pharmacy costs are anticipated to decrease about \$9 million total funds over the biennium compared to FY 2004 expenditures.

### PDL

HRD began designing a PDL late summer 2004. Since initial meetings, an advisory group has reviewed 2 to 4 therapeutic drug classes at several meetings. The purpose of the review is to establish the most effective drug or drugs in treating a specific disease or medical condition and include those drugs on the preferred drug list. Other “non approved” drugs must then be prior approved in order for the prescription to be covered by Medicaid. (Clients still receive 3 days of prescription coverage even if the drug is not prior approved.) This process is already in place for generic drugs, so it will not impose new or unknown administrative burdens on physicians or Medicaid clients.

### Pharmacy Purchasing Pool

DPHHS had hoped to be able to join an existing purchasing pool with 6 or 7 other states in order to negotiate additional rebate payments from drug manufacturers. The purchasing pool has more clout than an individual state such as Montana because there are more covered lives. If DPHHS can participate in the purchasing pool it will receive additional rebate payments, and lower the overall cost of Medicaid pharmacy services. Otherwise, DPHHS must use the rebate amounts determined by CMS. Those amounts change frequently, and can change retroactive to 1991.

**LFD  
ISSUE**

Anticipated Pharmacy Cost Savings – DPHHS submitted Medicaid state plan amendments to implement a PDL and to join a multi-state purchasing pool. CMS asked questions about both amendments and DPHHS has responded. However, as of December 1, 2004, DPHHS had not received approval from CMS to implement the state plan amendments. The legislature may wish to review the status of the state plan amendments prior to acting on the executive budget request.

### Children’s Mental Health Services

Children’s mental health services were about \$61 million in base budget expenditures. HRD has been working on development of a children’s system of care, meaning that all public agencies that could be involved with a child and family come together to help identify and provide services to help keep the child in the family and in the community.

The executive budget anticipates \$1.5 million in mental health services savings over the biennium, due to implementation of systems of care Kids' Management Authorities (KMAs) and expansion of KMAs to more areas of the state. In addition, funding increases to place staff regionally throughout the state are anticipated to help keep children in lower levels of care.

Montana also received a grant from the Substance Abuse and Mental Health Services Administration (SAMHSA) to help implement the system of care. The grant will be available over the next several years and funds 7.00 FTE.

#### Managed Care Medicaid Services

There are some components of managed care in the state Medicaid program, including

- Nurse First - a disease management program for asthma, heart disease, diabetes, and some high cost cases
- Passport - a primary doctor/gate keeper program

The cost for managed care services totaled about \$61 million during FY 2004.

#### Acute Services

Acute Medicaid services include physician services, durable medical equipment, school based services reimbursement, and therapy services such as speech therapy, physical therapy, and occupational therapy. The FY 2007 request for acute services rises \$9 million over base budget expenditures due to the expectation that schools will increase billing for Medicaid eligible services provided to Medicaid eligible children and for administrative costs. The reimbursement to schools is 100 percent federal since schools certify the state match.

#### Medicare Buy-In

The Medicaid program pays for Medicare Part A and Part B coverage for persons who are eligible for both Medicare and Medicaid. Medicare then pays for a share of medical costs that would otherwise be paid for by Medicaid. This program grows from \$12 to \$16 million over the 2007 biennium due to anticipated enrollment and premium increases.

#### Cervical and Breast Cancer

Montana accepted federal funds to screen persons for breast and cervical cancer. As a condition of receiving the grant, Medicaid eligibility is extended to persons with incomes under 200 percent of the federal poverty level who participate in the screen and who are determined to have breast or cervical cancer. The Medicaid services covered are those included in the basic Medicaid service package available to low-income adults with children. The cost of providing services for persons with breast and cervical cancer grows from \$2 to \$3 million by the end of the 2007 biennium.

#### Indian Health Services

Indian Health Services providers receive Medicaid reimbursement for services provided to Medicaid eligible Tribal members. The reimbursement is 100 percent federally funded and is estimated to increase from \$27 million in the base budget to \$42 million in FY 2007.

#### Children's Health Insurance Program (CHIP)

CHIP base budget expenditures were about \$16 million and grow to \$23 million in FY 2007. State general fund match rises from \$0.3 million to \$1 million and state special revenue grows from \$3 million to \$4 million. However, a significant portion of the state special revenue matching funds included in the executive budget is from private donations (about \$2 million per year) and not expected to materialize. Several issues related to CHIP, including matching funds, legal issues, and legislative policy options, are discussed in the CHIP function budget narrative.

#### **Funding**

The following table shows program funding, by source, for the base year and for the 2007 biennium as recommended by the Governor.

Program Funding Table Health Resources Division						
Program Funding	Base FY 2004	% of Base FY 2004	Budget FY 2006	% of Budget FY 2006	Budget FY 2007	% of Budget FY 2007
01100 General Fund	\$ 71,665,419	20.1%	\$ 97,443,689	21.6%	\$ 105,934,642	21.9%
02142 Medicaid Third Party Revenue	858,686	0.2%	858,686	0.2%	858,686	0.2%
02311 6901-02 Indrct Activity Prog 11	7,548	0.0%	7,787	0.0%	7,548	0.0%
02698 69010-Prevention&Stabilization	-	-	601,571	0.1%	-	-
02773 Childrens Special Health Services	-	-	200,000	0.0%	200,000	0.0%
02780 Chip Donations	-	-	2,061,949	0.5%	2,736,602	0.6%
02781 Nurse First Pgm Expansion	-	-	1,000,000	0.2%	1,000,000	0.2%
02789 6901-CHIP/Mcha Tobacco Sett Fd	2,656,626	0.7%	2,203,411	0.5%	2,196,747	0.5%
02987 Tobacco Interest	1,671,408	0.5%	2,555,562	0.6%	3,045,562	0.6%
02989 69010-Hospital Utilization Fee	234,111	0.1%	8,874,661	2.0%	9,312,437	1.9%
03031 Maternal & Child Health	868,395	0.2%	868,294	0.2%	867,786	0.2%
03426 Chip Program Fed	13,436,726	3.8%	17,705,864	3.9%	18,868,370	3.9%
03580 6901-93.778 - Med Adm 50%	3,716,183	1.0%	3,874,522	0.9%	3,870,364	0.8%
03582 93.778 - Med Ben 100%	26,652,410	7.5%	36,232,971	8.0%	42,246,203	8.7%
03583 93.778 - Med Ben Fmap	233,870,025	65.7%	276,199,994	61.1%	291,306,190	60.1%
03611 6901-03 Indrct Activity Prog 11	128,541	0.0%	128,596	0.0%	128,541	0.0%
03794 Samsha Grant	-	-	1,116,289	0.2%	1,865,615	0.4%
Grand Total	<u>\$ 355,766,078</u>	<u>100.0%</u>	<u>\$ 451,933,846</u>	<u>100.0%</u>	<u>\$ 484,445,293</u>	<u>100.0%</u>

Health Resources Division is funded from general fund, state special revenue, and federal funds. The single most significant funding source is federal Medicaid matching funds, which account for nearly 70 percent of the FY 2007 budget request when administrative and services funding is combined. The next most significant source of funding is general fund, which rises from 20 percent of base budget funding to 22 percent of the FY 2007 request.

The majority (97 percent) of general fund in HRD is used to match federal Medicaid and CHIP funds, which provides direct services to individuals. About \$3 million funds administrative costs, and again, primarily the state match for Medicaid and CHIP program administration.

State special revenue provides 3 percent of base budget funding and rises to 4 percent. Sources of state special revenue and activities each funds are:

- Medicaid third party revenue from private insurance payments - state Medicaid match costs
- Tobacco settlement funds
  - Prevention and stabilization account – state Medicaid match
  - Allocation to fund state CHIP match
- Children's special health services – insurance and co-payments for children's special health clinic services
- CHIP donations – anticipated private donations for CHIP match
- Nurse First program funds – payments from private insurance companies to expand contract for disease and high cost case management
- Interest from the tobacco settlement constitutional trust fund – state Medicaid match
- Hospital utilization fee – a per bed day fee used as state match to draw down additional federal matching funds to increase Medicaid payments to hospitals

Federal funds include:

- Maternal and Child Health Block Grant – federal funds for children's special health clinic services
- CHIP federal matching funds – CHIP health services and administrative costs
- Federal Medicaid matching funds – health services and administrative costs
- Federal indirect cost recovery – allocation of shared administrative costs to various federal funding sources
- SAMHSA Grant – federal Substance Abuse and Mental Health Services Administration grant to support development of children's system of care

### Biennial Comparison

The HRD 2007 biennium budget request is 24 percent higher than the 2005 biennium expenditures and appropriation. The majority of the increase - \$160 million - is in Medicaid benefits and the majority of the funding increase is in federal funds - \$115 million. The biennial increase is overstated because \$58.3 million in expenditures from the hospital provider tax to raise Medicaid reimbursement rates are not included in the 2005 biennium but are included in the 2007 biennium (\$59.8 million). If the data were adjusted for this variance, the increase would be 15 percent and the increase in benefits would be about \$121 million.

Personal services funding increases 34 percent due primarily to a net increase of 16.25 FTE, including:

- 7.00 new FTE to help develop a children's system of care
- 5.00 new FTE placed in regions throughout the state to help administer mental health services for children,
- 2.00 new FTE to review Medicaid data to help identify areas of potential cost containment, and better service delivery and coordination
- 2.00 new FTE for PASSPORT (primary care doctor/gate keeper program)
- 1.00 new FTE for pharmacy program management and analysis

Receipt of a new federal grant to develop a system of care for children causes grant expenditures to rise significantly compared to the 2005 biennium budget.

General fund increases about 25 percent, rising nearly \$40 million between biennia. The increase is due to projected growth in Medicaid costs and changes in the state match rate for Medicaid and CHIP. During the base budget year, the federal Medicaid match rate was raised temporarily by 2.95 percent, which causes 2007 biennium general fund costs to increase \$15 million in order to maintain the same level of Medicaid services. In addition, the normal annual adjustments to the federal Medicaid matching rate will increase the state match rate for Medicaid and CHIP during the 2007 biennium, causing general fund costs to increase \$15 million to maintain the same level of services. Altogether, changes in the state Medicaid match rate total \$28 million or 70 percent of the \$40 million general fund increase.

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions. Each of the present law adjustments will be discussed by division function (sub-program).

Figure 47 2005 Biennium Compared to 2007 Biennium Health Resources Division					
Budget Item/Fund	2005 Biennium	2007 Biennium	Percent of Total	Change	Percent Incr/Decr
FTE	52.00	68.25		16.25	31.3%
Personal Services	\$4,916,451	\$6,588,358	0.7%	\$1,671,907	34.0%
Operating	12,585,238	15,931,347	0	3,346,109	26.6%
Equipment	0	0	0	0	0.0%
Grants	13,070	1,902,017	0	1,888,947	14452.5%
Benefits/Claims	738,306,380	911,952,853	1	173,646,473	23.5%
Debt Service	4,565	4,564	0	(1)	0.0%
Total Costs	<u>\$755,825,704</u>	<u>\$936,379,139</u>	<u>100%</u>	<u>\$180,553,435</u>	<u>23.9%</u>
General Fund	\$160,034,277	\$203,378,331	22%	\$43,344,054	27.1%
State Special	15,610,033	37,721,209	0	22,111,176	141.6%
Federal Funds	<u>580,181,394</u>	<u>695,279,599</u>	<u>1</u>	<u>115,098,205</u>	<u>19.8%</u>
Total Funds	<u>\$755,825,704</u>	<u>\$936,379,139</u>	<u>100.0%</u>	<u>\$180,553,435</u>	<u>23.9%</u>

Present Law Adjustments										
Fiscal 2006					Fiscal 2007					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				332,348						330,989
Vacancy Savings				(104,962)						(104,910)
Inflation/Deflation				(2,324)						(2,286)
Fixed Costs				12,965						13,918
<b>Total Statewide Present Law Adjustments</b>				<b>\$238,027</b>						<b>\$237,711</b>
DP 1 - Tobacco Portion of 17% for Medicaid (Requires Legislation)	0.00	35,596	1,323,210	0	1,358,806	0.00	157,465	1,346,732	0	1,504,197
DP 13 - Medicaid Caseload - Child and Adult Medicaid	0.00	10,473,480	884,154	27,847,178	39,204,812	0.00	16,098,575	1,374,154	41,042,733	58,515,462
DP 14 - Medicaid Caseload - Medicare Buy-In Program	0.00	805,128	0	1,974,051	2,779,179	0.00	1,124,191	0	2,640,682	3,764,873
DP 17 - Medicaid Caseload - Children's Mental Health	0.00	425,604	0	1,043,516	1,469,120	0.00	634,086	0	1,489,444	2,123,530
DP 20 - Medicaid Caseload - Breast and Cervical Cancer	0.00	166,700	0	601,505	768,205	0.00	267,514	0	1,016,143	1,283,657
DP 23 - FMAP Enhancement Adjustment-Child & Adult Medicaid	0.00	7,504,153	0	(7,504,153)	0	0.00	7,504,153	0	(7,504,153)	0
DP 29 - FMAP Adjustment - Child and Adult Medicaid	0.00	6,189,028	0	(6,189,028)	0	0.00	8,045,737	0	(8,045,737)	0
DP 37 - CHIP FMAP Adjustment	0.00	195,245	0	(195,245)	0	0.00	269,383	0	(269,383)	0
DP 57 - Transportation Contract Federal Rate Change	0.00	150,000	0	0	150,000	0.00	150,000	0	0	150,000
DP 60 - Rural Health Clinics / Qualified Health Centers	0.00	54,319	0	133,181	187,500	0.00	57,667	0	135,458	193,125
DP 67 - Foundation Contract / Acute Care	0.00	8,112	0	19,888	28,000	0.00	8,361	0	19,639	28,000
DP 121 - Indian Health Services	0.00	0	0	9,580,561	9,580,561	0.00	0	0	15,593,793	15,593,793
DP 122 - School Based Services	0.00	0	0	7,507,268	7,507,268	0.00	0	0	8,457,993	8,457,993
DP 9999 - Statewide FTE Reduction	(0.75)	(17,263)	0	0	(17,263)	(0.75)	(17,224)	0	0	(17,224)
<b>Total Other Present Law Adjustments</b>	<b>(0.75)</b>	<b>\$25,990,102</b>	<b>\$2,207,364</b>	<b>\$34,818,722</b>	<b>\$63,016,188</b>	<b>(0.75)</b>	<b>\$34,299,908</b>	<b>\$2,720,886</b>	<b>\$54,576,612</b>	<b>\$91,597,406</b>
Grand Total All Present Law Adjustments					\$63,254,215					\$91,835,117

**New Proposals**

New Proposals										
Program	FTE	Fiscal 2006				Fiscal 2007				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9 - Continuation of PSA for Medicaid (Requires Legislation)										
11	0.00	0	601,571	0	601,571	0.00	0	0	0	0
DP 38 - Manage Medicaid Pharmacy Program										
11	1.00	(1,165,170)	0	(3,353,302)	(4,518,472)	1.00	(834,359)	0	(2,494,238)	(3,328,597)
DP 42 - Enhance Efficiency of Children's Mental Health Svc										
11	5.00	(55,958)	0	(418,384)	(474,342)	5.00	(54,354)	0	(395,714)	(450,068)
DP 43 - Medicaid Cost Analysis										
11	2.00	(19,573)	0	(122,865)	(142,438)	2.00	(24,179)	0	(124,578)	(148,757)
DP 44 - Medicaid Passport Services										
11	2.00	(13,425)	0	(14,426)	(27,851)	2.00	(13,520)	0	(14,559)	(28,079)
DP 90 - CHIP Donations										
11	0.00	0	500,000	1,978,929	2,478,929	0.00	0	500,000	1,899,232	2,399,232
DP 110 - Continuation of Hospital Provider Tax (Requires Legislation)										
11	0.00	0	8,640,550	20,859,450	29,500,000	0.00	0	9,078,326	21,263,674	30,342,000
DP 112 - Expand Nurse First to Non-Medicaid Native American										
11	0.00	0	1,000,000	0	1,000,000	0.00	0	1,000,000	0	1,000,000
DP 115 - Specialty Clinic Cost Recovery (Requires Legislation)										
11	0.00	0	200,000	0	200,000	0.00	0	200,000	0	200,000
DP 146 - Develop System of Care for Children										
11	7.00	0	0	1,116,289	1,116,289	7.00	0	0	1,865,615	1,865,615
DP 150 - Restore Children's Therapeutic Services										
11	0.00	0	0	722,970	722,970	0.00	0	0	722,970	722,970
DP 192 - CHIP Enrollment to 10,900 Children (Requires Legislation)										
11	0.00	937,253	(220,127)	1,739,771	2,456,897	0.00	789,099	424,471	3,056,212	4,269,782
Total	17.00	(\$316,873)	\$10,721,994	\$22,508,432	\$32,913,553	17.00	(\$137,313)	\$11,202,797	\$25,778,614	\$36,844,098

**Medicaid Proposed Budget**

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	29.00	(0.75)	5.00	33.25	(0.75)	5.00	33.25	33.25
Personal Services	1,343,699	97,106	279,287	1,720,092	97,387	278,498	1,719,584	3,439,676
Operating Expenses	3,836,117	160,028	1,535,040	5,531,185	160,382	1,547,200	5,543,699	11,074,884
Grants	19	0	0	19	0	0	19	38
Benefits & Claims	271,153,618	61,386,331	24,598,483	357,138,432	89,313,100	26,010,869	386,477,587	743,616,019
<b>Total Costs</b>	<b>\$276,333,453</b>	<b>\$61,643,465</b>	<b>\$26,412,810</b>	<b>\$364,389,728</b>	<b>\$89,570,869</b>	<b>\$27,836,567</b>	<b>\$393,740,889</b>	<b>\$758,130,617</b>
General Fund	58,402,303	25,417,610	(1,198,168)	82,621,745	33,446,470	(872,058)	90,976,715	173,598,460
State/Other Special	2,538,201	2,207,603	10,242,121	14,987,925	2,720,886	10,078,326	15,337,413	30,325,338
Federal Special	215,392,949	34,018,252	17,368,857	266,780,058	53,403,513	18,630,299	287,426,761	554,206,819
<b>Total Funds</b>	<b>\$276,333,453</b>	<b>\$61,643,465</b>	<b>\$26,412,810</b>	<b>\$364,389,728</b>	<b>\$89,570,869</b>	<b>\$27,836,567</b>	<b>\$393,740,889</b>	<b>\$758,130,617</b>

The Medicaid services function manages core state plan Medicaid benefits, which include benefits such as inpatient and outpatient hospital, prescription drugs, physician, dental, durable medical equipment, and vision services. The 2007 biennium budget request grows about \$206 million total funds (including \$58 million general fund) compared to the FY 2004 base budget expenditures. The primary changes are:

- Medicaid caseload and service utilization changes - \$150 million total funds; \$29 million general fund
- State Medicaid match rate changes – increase general fund \$30 million with an offsetting decrease in federal funds
- Continuation of hospital utilization fee to draw down federal matching funds - \$60 million total funds
- Pharmacy program changes expected to reduce Medicaid costs by \$8 million total funds including \$2 million general fund
- Funding for 5.00 new FTE to:
  - Analyze Medicaid program expenditures to reduce costs
  - Manage the PASSPORT Program, which establishes a primary care doctor to help manage services for clients
  - Assist in management of several cost saving measures of the Medicaid pharmacy program

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments										
-----Fiscal 2006-----					-----Fiscal 2007-----					
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				175,119						175,375
Vacancy Savings				(60,750)						(60,764)
Inflation/Deflation				(1,504)						(1,491)
Fixed Costs				(16,468)						(16,127)
<b>Total Statewide Present Law Adjustments</b>				<b>\$96,397</b>						<b>\$96,993</b>
DP 1 - Tobacco Portion of 17% for Medicaid	0.00	35,596	1,323,210	0	1,358,806	0.00	157,465	1,346,732	0	1,504,197
DP 13 - Medicaid Caseload - Child and Adult Medicaid	0.00	10,473,480	884,154	27,847,178	39,204,812	0.00	16,098,575	1,374,154	41,042,733	58,515,462
DP 14 - Medicaid Caseload - Medicare Buy-In Program	0.00	805,128	0	1,974,051	2,779,179	0.00	1,124,191	0	2,640,682	3,764,873
DP 20 - Medicaid Caseload - Breast and Cervical Cancer	0.00	166,700	0	601,505	768,205	0.00	267,514	0	1,016,143	1,283,657
DP 23 - FMAP Enhancement Adjustment-Child & Adult Medicaid	0.00	7,504,153	0	(7,504,153)	0	0.00	7,504,153	0	(7,504,153)	0
DP 29 - FMAP Adjustment - Child and Adult Medicaid	0.00	6,189,028	0	(6,189,028)	0	0.00	8,045,737	0	(8,045,737)	0
DP 57 - Transportation Contract Federal Rate Change	0.00	150,000	0	0	150,000	0.00	150,000	0	0	150,000
DP 60 - Rural Health Clinics / Qualified Health Centers	0.00	54,319	0	133,181	187,500	0.00	57,667	0	135,458	193,125
DP 67 - Foundation Contract / Acute Care	0.00	8,112	0	19,888	28,000	0.00	8,361	0	19,639	28,000
DP 121 - Indian Health Services	0.00	0	0	9,580,561	9,580,561	0.00	0	0	15,593,793	15,593,793
DP 122 - School Based Services	0.00	0	0	7,507,268	7,507,268	0.00	0	0	8,457,993	8,457,993
DP 9999 - Statewide FTE Reduction	(0.75)	(17,263)	0	0	(17,263)	(0.75)	(17,224)	0	0	(17,224)
<b>Total Other Present Law Adjustments</b>	<b>(0.75)</b>	<b>\$25,369,253</b>	<b>\$2,207,364</b>	<b>\$33,970,451</b>	<b>\$61,547,068</b>	<b>(0.75)</b>	<b>\$33,396,439</b>	<b>\$2,720,886</b>	<b>\$53,356,551</b>	<b>\$89,473,876</b>
<b>Grand Total All Present Law Adjustments</b>				<b>\$61,643,465</b>						<b>\$89,570,869</b>

DP 1 - Tobacco Portion of 17 percent for Medicaid (Requires Legislation) - This decision package requests \$2.9 million in tobacco settlement state special revenue funds over the biennium. The request also includes \$193,000 general fund. This request is dependent on passage of legislation. The funds are diverted from the allocation of tobacco settlement revenues to support the CHIP program (17-6-606, MCA). This request continues a temporary diversion of tobacco settlement funds allocated to CHIP for state Medicaid matching funds authorized by the legislature through SB 485.

#### LFD COMMENT

Reallocation of Tobacco Settlement Revenue – The executive budget reallocates a portion of the 17 percent of tobacco settlement proceeds from CHIP to Medicaid matching funds. The executive budget documentation states that continues a temporary diversion authorized in 17-6-606, MCA.

Since the executive budget adds nearly \$1.7 million in general fund as state matching funds for CHIP, the legislature could consider shifting the general fund in DP 192 (CHIP funding) to DP 1 (Medicaid funding) and retaining the tobacco settlement revenue as CHIP match.

If the legislature approves this request, it will need to amend 17-6-606, MCA to allow tobacco settlement funds to be used for Medicaid match. Additionally, this request, if approved, should be listed as a new proposal, because statute must be amendment to implement it.

DP 13 - Medicaid Caseload - Child and Adult Medicaid - This request adds \$98 million total funds, including \$27 million in general fund, over the biennium for Medicaid caseload growth and changes in service utilization. Costs are estimated to grow by 6 percent per year. The caseload changes are considered a present law adjustment since these Medicaid services are an entitlement – meaning that all persons eligible for services must be provided medically necessary services.

DPHHS uses a complex set of projections from several sources to estimate these changes. Statistics and trends relating to monthly eligibility, type of provider, number of services, cost per service, and health care inflation are taken into account in the projections. This adjustment includes only projected changes in the eligible population, and changes in the acuity level of the eligible population.

DP 14 - Medicaid Caseload - Medicare Buy-In Program - This request adds \$6.5 million over the biennium with \$2 million general fund to pay expected increases in premiums for Medicare Part A and Part B and in the number of persons eligible for coverage. The Medicare buy-in program allows state Medicaid programs to purchase Medicare coverage through premium payments for Medicaid recipients who are dually eligible for Medicare and Medicaid. Medicare then covers the cost of most services for the individual with no further Medicaid liability. Medicaid would only be liable for the costs of non-Medicare covered services, and for co-insurance and deductibles related to services utilized.

The major cost driver for this program is the increase in premiums, which are established by the federal government. DPHHS estimates that monthly premiums for Part B will increase 8 percent per year, from \$58.70 per eligible in FY 2004 and \$66.60 in FY 2005 to \$71.92 per eligible in FY 2006 and \$77.68 in FY 2007. Premiums for Medicare Part A will be static over the next several years.

DPHHS is projecting a 2 percent increase in the number of eligibles for Part B, consistent with actual increases over the last several years. The average number of eligibles per month for Part A in FY 2003 and FY 2004 was 419. A 2 percent increase would put the average number of eligibles per month to 427 during the upcoming biennium. The average number of eligibles per month for Part B in FY 2003 and FY 2004 was 13,995. A 2 percent increase would put the average number of eligibles per month to 14,275 during the upcoming biennium.

#### LFD ISSUE

Medicare Buy In Request – The legislature may wish to review the estimates of Medicare premiums during the legislative session to determine whether the updated information is available regarding the projected premium increase. Additionally, the legislature may wish to review the number of persons eligible for this benefit due to the implementation of the Medicare Part D benefit. Nationwide, states are anticipating increases in the number of persons eligible for Medicaid, in addition to the Buy-In programs, as persons apply for Part D low-income subsidies. Since eligibility for Part D begins July 1, 2005, the number of persons eligible for both of these benefits may increase, since Part D outreach will likely identify persons who are eligible but not yet enrolled in Medicaid.

DP 20 - Medicaid Caseload - Breast and Cervical Cancer - This request adds \$2 million for the biennium including \$0.4 million general fund to provide continued funding for Medicaid expenditures related to the breast and cervical cancer treatment program for those individuals determined to be Medicaid eligible.

The Medicaid program provides health care coverage and reimbursement to health care providers for those individuals screened through the Montana Breast and Cervical Health (MBCH) program who are diagnosed with breast and/or cervical cancer or pre-cancer. The individual must also be under 65 years of age, uninsured, and have a family gross income at or below 200 percent of the federal poverty level. Individuals eligible under this program are covered for health care services under the basic Medicaid program for the duration of treatment, the same coverage that is provided under the FAIM (Families Achieving Independence in Montana) program.

DP 23 - FMAP Enhancement Adjustment-Child & Adult Medicaid - The federal Medicaid match rate was raised temporarily by 2.95 percent in FY 2004 as part of federal fiscal relief for states. This proposal adds \$15 million general fund and reduces federal funds by a like amount to reflect the fiscal impact of the temporary reduction.

DP 29 - FMAP Adjustment - Child and Adult Medicaid - This adjustment adds \$13 million general fund and reduces federal funds by a like amount to reflect the annual changes in federal Medicaid match rates. The federal match rate for each state is determined by changes in the per capita income of a state compared to national per capita income.

DP 57 - Transportation Contract Federal Rate Change - This proposal adds \$0.3 million general fund due to a recent rule change made by the Center for Medicare and Medicaid Services (CMS). The federal matching rate for the transportation utilization contract was reduced from 75 to 50 percent. The contract controls costs in the transportation program by ensuring that clients are utilizing medical services closest to their home and that the client made the medical appointment. This change adjusts current level expenditures for the new match rate.

DP 60 - Rural Health Clinics / Qualified Health Centers - This proposal requests \$0.4 million, including \$0.1 million general fund, to pay for Medicaid services provided by Rural Health Clinics and Federally Qualified Health Centers. These centers provide services funded by Medicaid. These facilities are paid an all-inclusive prospective payment amount per patient visit. The per visit payment amounts are required to be increased each year by the Medicare Economic Index due to the federal Benefit Improvement and Protection Act.

**LFD  
COMMENT**

Executive Request – The documentation accompanying the executive request for this Medicaid benefit is unclear. The narrative explains that the request is based on a 3 percent annual increase from the base budget:

“The 3 most recent annual increases have been 2.6 percent, 3.0 percent, and 2.9 percent. The 2007 biennium increase is projected to be 3 percent on a FY 2004 base amount of \$6.25 million”.

However, the increase does not include the program growth in FY 2005. LFD staff requested information to clarify the request, but did not receive a response from HRD.

DP 67 - Foundation Contract / Acute Care - This proposal requests an additional \$28,000 per year to reissue a contract for utilization review services, funded 25 percent general fund and 75 percent federal funds. The additional amount covers an increase in the number of non-emergent hospital emergency department claims being reviewed and an increase in the number of cases being sent to peer review. The current contract duties include:

- Review of out-of-state inpatient hospital admissions - it is the intent of the Montana Medicaid program to require Medicaid recipients to utilize services available within the State of Montana when it is medically appropriate
- Review of in-state inpatient rehabilitation admissions – DPHHS requires prior authorization (PA) and continued stay reviews for these services to avoid reimbursement of services not requiring acute inpatient care
- Prior authorization of transplant services – Prior authorization is required on all transplant services for children and for the four services covered for adults
- Retrospective review to determine appropriateness of treatment
- Management of high cost cases
- Medical consultation support
- Coordination of activity with the transportation authorization contractor

**LFD  
ISSUE**

Savings due to Enhanced Utilization Review – If HRD expands the scope of the utilization review contract, it would be logical to assume that additional savings should accrue to the Medicaid program. HRD has provided documentation that: “Over the last two years, the current contract has a cost to savings ratio of \$1 spent to \$7 saved and that the cost savings generated by these reviews more than covers the additional costs to the contract.”

If savings are proportional to expenditures, increasing the contract by \$28,000 annually could generate about \$198,000 in savings. The legislature could consider offsetting the cost of increasing the contract by a portion of the potential savings. For instance, if the legislature assumed that a contract increase would generate \$3.50 in savings for each \$1 increase, it could incorporate savings of \$99,450 each year for a savings of about \$33,000 general fund each year.

DP 121 - Indian Health Services - This request adds \$25 million in federal funds for Indian Health Services caseload and the federal rate increases for the Medicaid Indian Health Services program, which is 100 percent federally funded. The Montana Indian Health Service is making a concerted effort to identify all Medicaid eligible persons who are also Indian

Health Service recipients and to bill appropriately for services. Accordingly, this program has had substantial growth in the past and is expected to continue to grow through the next biennium.

Under Federal rules Indian Health Service is considered the payer of last resort. Accordingly, the Medicaid program must provide payment to the Indian Health Service or Indian Health Service providers for Native Americans who are also on Medicaid. This program is funded with 100 percent federal funds and is projected to increase 15 percent annually.

**DP 122 - School Based Services -** This proposal requests \$16 million in federal authority for the Medicaid school-based services contract. Montana schools are providing services that are eligible for federal Medicaid reimbursement and have a potential for receiving a reimbursement of \$7 to \$10 million in covered Medicaid services. FY 2004 base expenditures were \$6 million.

The Centers for Medicare and Medicaid Services (CMS) allowed an interagency agreement between the state Medicaid agency (DPHHS) and the Montana Office of Public Instruction (OPI) where OPI may certify the nonfederal Medicaid match for health-related Medicaid covered services included in children's Individualized Education Plans and schools receive the federal matching funds for the balance of eligible services. Federal Medicaid matching funds reduce the school cost of providing services to Medicaid eligible children and also offset a portion of administrative costs allocated to time spent on program administration.

To date, Medicaid eligible services have expanded to include reimbursement for school psychologists, personal care assistants/paraprofessionals, comprehensive school and community treatment services, and specialized transportation. DPHHS will assume administration of the Medicaid Administrative Claiming (MAC) program previously developed and managed by a contractor. The federal matching funds (about \$0.9 million per quarter) to pay for MAC costs are also included in the proposal.

**DP 9999 - Statewide FTE Reduction -** This decision package implements a personal services funding reduction equivalent to the reduction taken in the 2003 legislative session. This 0.75 FTE and \$34,000 general fund per biennium are removed from the budget permanently.

### New Proposals

New Proposals										
Sub Program	Fiscal 2006					Fiscal 2007				
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 9 - Continuation of PSA for Medicaid (Requires Legislation)										
01	0.00	0	601,571	0	601,571	0.00	0	0	0	0
DP 38 - Manage Medicaid Pharmacy Program										
01	1.00	(1,165,170)	0	(3,353,302)	(4,518,472)	1.00	(834,359)	0	(2,494,238)	(3,328,597)
DP 43 - Medicaid Cost Analysis										
01	2.00	(19,573)	0	(122,865)	(142,438)	2.00	(24,179)	0	(124,578)	(148,757)
DP 44 - Medicaid Passport Services										
01	2.00	(13,425)	0	(14,426)	(27,851)	2.00	(13,520)	0	(14,559)	(28,079)
DP 110 - Continuation of Hospital Provider Tax (Requires Legislation)										
01	0.00	0	8,640,550	20,859,450	29,500,000	0.00	0	9,078,326	21,263,674	30,342,000
DP 112 - Expand Nurse First to Non-Medicaid Native American										
01	0.00	0	1,000,000	0	1,000,000	0.00	0	1,000,000	0	1,000,000
<b>Total</b>	<b>5.00</b>	<b>(\$1,198,168)</b>	<b>\$10,242,121</b>	<b>\$17,368,857</b>	<b>\$26,412,810</b>	<b>5.00</b>	<b>(\$872,058)</b>	<b>\$10,078,326</b>	<b>\$18,630,299</b>	<b>\$27,836,567</b>

**DP 9 - Continuation of PSA for Medicaid (Requires Legislation) -** This request adds \$0.6 million in tobacco settlement proceeds for Medicaid matching funds. This request continues a one-time appropriation from prevention and stabilization account (PSA) created by the 2003 Legislature through SB 485 (17-6-606, MCA). The SB 485 appropriation was removed from the FY 2004 base budget.

**LFD  
COMMENT**

Service Reductions – The executive budget does not include information as to what services would be reduced if this funding were not approved. LFD staff has requested such information so that the legislature can make an informed choice as to whether to accept this proposal. A response was not received from HRD.

DP 38 - Manage Medicaid Pharmacy Program - This request funds 1.00 new FTE and includes savings of nearly \$2 million in general fund and \$8 million in total funds. This proposal would provide for the implementation, monitoring, and management of the Medicare "clawback" provision, the utilization of prescription drugs, the preferred drug list program, and the pharmacy audit review. The clawback provision and changes in drug coverage due to the Medicare Modernization Act are discussed in greater detail in the DPHHS overview.

This proposal would fund contract increases to hire an additional 0.50 FTE pharmacist to ensure Medicaid recipients are using prescription drugs appropriately. The current contract supports 0.50 FTE to perform the pharmacy case management program. The program has been functional since October 2003 and through June 2004, the total projected annualized cost savings are \$449,038 for FY 2004. Due to several months of start-up, the annualized savings are projected to be \$697,000 in total funds. By hiring a new 0.50 pharmacist, the HRD estimates it could double the annual estimated savings.

This request would permanently fund the 1.00 FTE modified position to administer the preferred drug list (PDL) to reduce the growth rate of the Medicaid Pharmacy program. The PDL is a list of preferred prescriptions categorized by therapeutic class and developed by a state's Pharmacy and Therapeutics Committee for Prescribers to use in meeting the drug therapy needs of their patients. Medications are preferred if they meet clinical and therapeutic criteria established by the Committee or if the manufacturer offers supplemental rebates making their product cost-effective. Medications that are not included on the PDL can be prescribed and reimbursed by Medicaid based on a clinical review of appropriateness for a particular patient situation (Prior Authorization).

HRD estimates that the PDL would provide on-going savings of 5 percent in FY 2006 and in FY 2007. The savings are based on a projected spending of \$116,714,366 in FY 2006 and \$127,109,969 in FY 2007. The general funds savings over the biennium are estimated at \$931,663 in FY 2006 and \$597,193 in FY 2007.

This request would also continue the in-depth audit program implemented in FY 2005 for the Medicaid Pharmacy Program. The audits include pharmacy benefit management, focused investigation audits, in-store audits, desktop audits and credentialing. Typically, companies that conduct pharmacy audits are able to recover approximately 0.5 percent of total pharmacy expenditures.

DP 43 - Medicaid Cost Analysis - This decision package funds 2.00 new FTE to perform analysis of the Medicaid services administered by HRD. Anticipated projects include analysis of:

- Potential over-payments
- Over-utilization of physician services and emergency room services
- Multiple drug prescriptions

The request includes savings of \$43,752 in general fund and \$291,195 in total funds over the biennium.

DP 44 - Medicaid Passport Services - This request would make permanent 2.00 new FTE that are currently in modified, off budget positions. These positions are responsible for quality assurance and utilization review activities designed to maintain and improve medical access and quality of care through the Medicaid Passport program. HRD is estimating biennial savings of \$26,945 general fund and \$55,930 total funds due to this change. DPHHS hired staff to replace a contracted function at an estimated savings of \$27,000 general fund and \$29,000 federal funds over the 2007 biennium.

DP 110 - Continuation of Hospital Provider Tax (Requires Legislation) - This proposal requests \$18 million state special and \$42 million federal authority over the biennium to continue the daily utilization fee paid by all hospitals and the increased payments to hospitals providing Medicaid services. The 2003 Legislature initiated and funded this program through HB 481, which terminates on June 30, 2005. This tax is a method for hospitals to be assessed a fee per inpatient. The state in turn uses the fee income to match with federal Medicaid funds to increase hospital Medicaid reimbursements.

DPHHS estimates of unreimbursed Medicaid costs for all hospitals in Montana for FY 2006 is \$29.5 million, and for FY 2007 is \$30.3 million. The utilization fee collected from the hospitals is estimated to be \$8.5 million for FY 2006 and \$9.1 million for FY 2007, which is matched about 3 to 1 with federal funds to produce additional hospital Medicaid payments of \$29.5 million for FY 2006 and \$30.3 million for FY 2007.

DPHHS has requested legislation to continue this fee. LC 135 is the bill draft request.

DP 112 - Expand Nurse First to Non-Medicaid Native American - This proposal establishes state special authority of \$1 million per year to provide Nurse First care management services to Native Americans in Montana who are not enrolled in Medicaid. Medicaid currently provides nurse advice line and disease management services to Medicaid clients, including Native Americans on Medicaid. These services help clients determine when and where to seek appropriate medical care when they're sick or injured. DPHHS anticipates that the Medicaid Nurse First program would result in savings due to averted medical expenses, while providing a service that improves the daily lives and the overall health of clients. .

The funding for these expanded services to non-Medicaid Native Americans would come from the health care payers who would save the cost of averted medical services. This spending authority would allow the department to add the services to the existing contract with McKesson Health Solutions and to disburse the additional \$1 million in annual payments to McKesson.

**LFD  
COMMENT**

Feasibility of Proposal – The legislature may wish to restrict this appropriation if it approves the request. As of early December 2004, HRD had not received interest from non-Medicaid service providers to participate in this proposal.

**Children's Health Care Resources Proposed Budget**

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	18.00	0.00	0.00	18.00	0.00	0.00	18.00	18.00
Personal Services	797,195	(415)	0	796,780	(1,788)	0	795,407	1,592,187
Operating Expenses	983,679	28,678	0	1,012,357	29,312	0	1,012,991	2,025,348
Benefits & Claims	15,671,951	0	5,858,796	21,530,747	0	7,591,984	23,263,935	44,794,682
Debt Service	2,282	0	0	2,282	0	0	2,282	4,564
<b>Total Costs</b>	<b>\$17,455,107</b>	<b>\$28,263</b>	<b>\$5,858,796</b>	<b>\$23,342,166</b>	<b>\$27,524</b>	<b>\$7,591,984</b>	<b>\$25,074,615</b>	<b>\$48,416,781</b>
General Fund	493,360	195,245	937,253	1,625,858	269,383	789,099	1,551,842	3,177,700
State/Other Special	2,656,626	5,651	479,873	3,142,150	5,520	1,124,471	3,786,617	6,928,767
Federal Special	14,305,121	(172,633)	4,441,670	18,574,158	(247,379)	5,678,414	19,736,156	38,310,314
<b>Total Funds</b>	<b>\$17,455,107</b>	<b>\$28,263</b>	<b>\$5,858,796</b>	<b>\$23,342,166</b>	<b>\$27,524</b>	<b>\$7,591,984</b>	<b>\$25,074,615</b>	<b>\$48,416,781</b>

Children's health care resources administers the CHIP program and children's special health services. CHIP is the most significant component of the function budget, accounting for \$24 million of the \$25 million FY 2007 budget request. Children's special health services manages two special health clinics that treat children with facial anomalies such as cleft palate and children with metabolic diseases. Teams of medical specialists travel to different Montana locations where children and families can participate in the clinic. Funds that remain after clinic expenses have been paid are used for financial assistance to families for payment of medical bills.

The 2007 biennium budget request adds:

- \$7.0 million in total funds (\$1.7 million in general fund) to maintain CHIP enrollment at 10,900
- \$5.0 million in total funds (\$0.1 million in donation state special revenue) to maintain base level CHIP enrollment program (10,900)
  - A portion of FY 2004 CHIP matching costs were paid from a one-time allocation of general fund that was freed up to due to federal fiscal relief and authorized by the Governor
- \$0.4 million in state special revenue payments from insurance and co-payments from parents whose children participate in the children's specialty health clinics

General fund increases about \$2 million over the 2007 biennium compared to FY 2004 base expenditures due to federal match rate changes for CHIP and due to anticipated declines in tobacco settlement revenue.

State special revenue increases a net \$2 million, primarily due to the addition of \$5 million in donations to support the state CHIP match and a reduction of about \$4 million in tobacco settlement revenues allocated to CHIP by 17-6-606, MCA. The reduction in tobacco settlement revenue taken from CHIP in the executive budget exceeds the anticipated decline in total settlement revenue. About \$880,000 per year is transferred from CHIP to the Mental Health Services Plan. This change is dependent on legislation and DPHHS has requested LC 126.

*Administration of CHIP Program*

When the CHIP program was originally established, the Governor recommended that it be a stand-alone insurance type product with benefit levels and coverage similar to that provided to state employees. All benefits are provided through contract with a private insurance carrier, except that HRD administers dental and vision services.

The current contractor:

- Accepts a monthly payment for each eligible child
- Establishes payment rates
- Establishes a provider network
- Pays all claims and tracks co-payment amounts
- Assumes financial risks if claims exceed revenues

- Provides selected management and claims payment data for state administrators

During the fall of 2004, the Legislative Finance Committee heard an update on the contract renegotiation for CHIP benefit administration. HRD staff noted that the CHIP plan administrator had reserves of slightly over \$3 million. Additionally, the contractor had used some of the reserves to fund charitable work of an organization closely related to the contractor.

HRD negotiated a contract renewal that:

- Used \$2 million of the reserve to pay for FY 2005 CHIP premiums in order to maintain enrollment at 10,900 children
  - May be an additional amount that will be known during early 2005
- Did not include a premium increase for FY 2005
- Would allow consideration of using future reserves as premium payments unless the contract is canceled

### LFD ISSUE

State Administration of CHIP – HRD is developing a management plan and cost estimate of assuming CHIP program administration. DPHHS staff indicates that the plan should be ready in time for legislative consideration. Members of the Legislative Finance Committee expressed interest in reviewing this policy issue so it is included in the legislative budget analysis.

The legislature may wish to consider the advantages and disadvantages of HRD administration of the CHIP program compared to continued contract administration. Issues that the legislature may want to consider with regard to state administration of CHIP include:

- State assumption of risk compared to the number of additional children that could be covered
- State ability to negotiate provider rates equal to those paid by the contractor and continue access to services
- Increased administrative costs and burden for state administration
- Transition planning and implementation if the administration is moved to the state
- Potential amendments that may be required to statute, particularly 53-4-1007 (2), MCA, which requires DPHHS to allow a contractor to negotiate a price prior to purchasing a service on a fee-for-service basis

### Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

Present Law Adjustments											
-----Fiscal 2006-----						-----Fiscal 2007-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services					32,784					31,352	
Vacancy Savings					(33,199)					(33,140)	
Inflation/Deflation					(755)					(733)	
Fixed Costs					29,433					30,045	
Total Statewide Present Law Adjustments					\$28,263						\$27,524
DP 37 - CHIP FMAP Adjustment											
	0.00	195,245		0	(195,245)	0	0.00	269,383	0	(269,383)	0
Total Other Present Law Adjustments											
	0.00	\$195,245		\$0	(\$195,245)	\$0	0.00	\$269,383	\$0	(\$269,383)	\$0
Grand Total All Present Law Adjustments					\$28,263						\$27,524

**DP 37 - CHIP FMAP Adjustment** - This request provides an increase of \$464,628 general fund over the biennium, with an offsetting decrease in federal funds, due to a projected change in the CHIP federal match rate. The CHIP match rate is based on a state's federal Medicaid match rate, except that no state may have a CHIP federal match rate greater than 85 percent. The actual and projected state match rates for CHIP by state fiscal year are:

- FY 2004 - 18.99 percent
- FY 2005 - 19.50 percent
- FY 2006 - 20.38 percent
- FY 2007 - 20.91 percent

### New Proposals

New Proposals											
Sub Program	FTE	Fiscal 2006				Fiscal 2007				Federal Special	Total Funds
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special		
DP 90 - CHIP Donations											
02	0.00	0	500,000	1,978,929	2,478,929	0.00	0	500,000	1,899,232		2,399,232
DP 115 - Specialty Clinic Cost Recovery (Requires Legislation)											
02	0.00	0	200,000	0	200,000	0.00	0	200,000	0		200,000
DP 150 - Restore Children's Therapeutic Services											
02	0.00	0	0	722,970	722,970	0.00	0	0	722,970		722,970
DP 192 - CHIP Enrollment to 10,900 Children (Requires Legislation)											
02	0.00	937,253	(220,127)	1,739,771	2,456,897	0.00	789,099	424,471	3,056,212		4,269,782
<b>Total</b>	<b>0.00</b>	<b>\$937,253</b>	<b>\$479,873</b>	<b>\$4,441,670</b>	<b>\$5,858,796</b>	<b>0.00</b>	<b>\$789,099</b>	<b>\$1,124,471</b>	<b>\$5,678,414</b>		<b>\$7,591,984</b>

**DP 90 - CHIP Donations** - The decision package requests \$1 million state special revenue authority for private donations and close to \$3.9 million federal authority to match CHIP donations over the biennium. Since donations are private revenue an appropriation is not needed for the state match for this purpose. Please see the LFD issue related to use of donations to match federal CHIP grant funds following DP 92.

**DP 115 - Specialty Clinic Cost Recovery (Requires Legislation)** - This decision package requests \$200,000 per year in state special authority for the Children's Special Health Services (CSHS) specialty clinics to recover costs of services from patients and their insurance. These clinics provide comprehensive, multi-disciplinary care for children with cleft, craniofacial, or metabolic disorders.

Currently, children who attend these clinics are not charged. HRD proposes to begin charging insurance and Medicaid if the child is Medicaid eligible to recover a portion of the cost. The annual cost of these clinics is \$178,155. Recovering a portion of the cost for these activities would free up federal Maternal Child Health block grant funds to be used for other services for children with special health care needs.

The specialty clinic structure has been in place since 1949. Cleft/craniofacial services are provided as a means for families to access all specialists in one visit, rather than multiple single visits to various specialists in order to increase coordination and decrease family stressors. The metabolic clinic began in 1993 as a means to bring specific sub-specialists into the state to provide the expertise for medically complex issues. This specialty clinic eliminates the need for families to travel to Denver or Salt Lake City for care.

#### LFD ISSUE

**Use of Health Specialty Clinic Fees as CHIP Match and Legislation** – The executive budget includes two errors related to this proposal. First, the fees generated from children's specialty are included as CHIP matching funds rather than budgeted in support of additional services for the population paying the fees. The legislature may wish to consider directing staff to allocate the appropriation for fee income to children's special health services if it approves the request. Second, there is no legislation required. However, the legislature could require DPHHS to bill third party payors and collect co-payments based on ability to pay if it believes that collections should be required and not optional. This option would require legislation.

Costs of Children's Special Health Clinics

The costs of children's special health clinics are recorded as operating costs in the contracted services category of expenditure. These costs (about \$449,000 annually), which include prescription services, consulting costs, and medical services, may be more appropriately budgeted and expended as grant or benefit expenditures.

**LFD  
ISSUE**

Recording Costs as Operating Expenditures Instead of Grants or Benefits – The children's special health services provides free medical clinics to children with facial anomalies such as cleft palate and children with metabolic diseases. The services are provided through contracts and recorded as operating costs instead of benefits or grants.

This issue is also discussed in the Public Health and Safety Division budget narrative, only in HRD the issue is related to a single program rather than several programs. Please see the Public Health and Safety Division (program 07) for a more detailed discussion of the issue. However, the summary of the major components of this issue are:

- There is inadequate guidance from either the Department of Administration or in statute to clarify the difference in contracted services operating expenditures and contracted services expenditures that benefit individuals directly or indirectly
- The lack of clarity may negate intended legislative fiscal and budget policy outcomes, including the reappropriation over two years of up to 30 percent of unexpended appropriations for personal services, operating, and equipment (17-7-304, MCA)
- Recording costs that benefit individuals directly or indirectly as operating costs:
  - Overstates costs of supporting the "bureaucracy"
  - Understates costs that are delivered by contractors throughout the state
  - Understates costs that directly or indirectly benefit individuals

The legislature could consider directing LFD staff to move the contracted services costs for clinic services and the \$200,000 annually in revenue expected to be collected from insurance and co-payments into the benefit or grant category of expenditure.

DP 150 - Restore Children's Therapeutic Services - This decision package requests \$722,970 per year in federal funding for children's therapeutic services that were eliminated in the Mental Health Services Plan / Children's Health Insurance Program benefit package in August, 2002 as part of budget reductions to avoid general fund cost overruns. Those services included therapeutic family and group care, therapeutic aide services, outpatient therapy sessions that exceed 20 per benefit year reimbursed by the CHIP benefit, respite care, child and adolescent day treatment, comprehensive school and community treatment (school-based mental health), and residential treatment in excess of the CHIP inpatient benefit. HRD staff estimates that as many as 280 children would be served.

**LFD  
ISSUE**

State Match and Cost Estimate for Expanded Mental Health Services under CHIP – LFD staff requested that HRD provide documentation as to:

- What the source of state match would be
- How costs were calculated for this expansion
- What services specifically are included in the expanded benefit
- What service limitations would be

Without this information it is not possible to determine whether it would be reasonable to assume that services would be delivered if the source of state match is undetermined and what the appropriation would support. Additionally, the legislature may wish to consider what other services HRD would potentially reduce to fund the match.

DP 192 - CHIP Enrollment to 10,900 Children (Requires Legislation) - This decision package requests \$6.7 million over the biennium. This request includes an increase of \$1.7 million in general fund and a decrease of \$3.6 million in tobacco settlement state special revenue, along with increases of \$3.8 million in state special revenue from donations and \$4.8 million in matching federal funds.

**LFD  
ISSUE**

Number of Children Covered, Use of Donations, Tobacco Settlement Funds for CHIP Match, and Increase for a Sustainable Program – There are several issues related to the executive budget request for the CHIP program:

- Number of children covered
- Use of donations as a state match
- Diversion of tobacco settlement funds that support CHIP match to other programs
- Premium increase assumptions
- Balance of increase in children covered and sustainability

#### *Executive Proposal for CHIP Match/Number of Children Covered*

Figure 48 shows the state CHIP matching funds by source of revenue that are included in the executive budget. The total amount included for CHIP match exceeds the FY 2004 base budget if all sources of revenue were to be realized. However, it is highly unlikely that private donations would be received in the amount reflected in the executive budget. Furthermore, private funds may be expended without an appropriation from the legislature.

The level of “hard” match for CHIP included in the executive budget is 20 to 24 percent lower than base budget expenditures. If the legislature wishes to continue funding for CHIP near the level achieved during the 2005 biennium (10,900) it would need to appropriate additional funds of about \$1 million per year. The annual number of children covered in Figure 48 is based on the FY 2005 premium level of \$1,547.16 annually.

#### *Diversion of Base Level Funding for State Match for CHIP*

The reason that the “hard” state match for CHIP in the 2007 biennium executive request declined is that CHIP matching funds were diverted to other programs in the executive budget. Nearly the entire FY 2004 base funding for CHIP match was paid by tobacco settlement proceeds. However, the executive budget reallocated about \$1 million per year of tobacco settlement proceeds from CHIP to the Mental Health Services Plan and has requested legislation to amend 17-6-606, MCA (LC 126).

One reason that a portion of the CHIP state match was diverted to other uses is that the revenue from the tobacco lawsuit settlement is estimated to decline during the 2007 biennium. The executive reduced CHIP funds to shore up other uses and other programs. If the legislature wishes to fully fund CHIP and other programs that were supported by tobacco settlement revenues in the 2005 biennium, it would need to find another source of revenue. This issue is discussed more fully in the DPHHS overview.

#### *Use of Donations as State Match*

Press reports in late November 2004 noted that the executive budget included private donations as CHIP match as a “place holder” in anticipation of passage of I-149 (amendment to 16-11-111, MCA), which increased cigarette taxes by \$1 per pack and allocated 44 percent of the proceeds to a state special revenue account to be used for health and Medicaid initiatives (16-11-119, MCA). A portion of the account is to be used to maximize enrollment in the CHIP program and may only be used for CHIP match.

**Figure 48**

#### CHIP State Matching Funds

#### FY 2004 Base Compared to Executive Budget Request

Fund Source	FY 2004	FY 2006	FY 2007
<u>Executive Proposal</u>			
General Fund	\$492,160	\$1,624,658	\$1,550,642
Tobacco Settlement	2,656,626	880,201	850,015
<b>Subtotal "Hard" Match</b>	<b>\$3,148,786</b>	<b>\$2,504,859</b>	<b>\$2,400,657</b>
Percent Change From Base		-20%	-24%
Children Covered Based on	10,435	7,943	7,956
FY 2005 Premium Level - \$1,547 Annually			
Donations*	\$0	\$2,061,949	\$2,736,602
<b>Total Executive Match</b>	<b>\$3,148,786</b>	<b>\$4,566,808</b>	<b>\$5,137,259</b>
<u>Funds Needed Above Hard Match in Executive Proposal to Maintain</u>			
<u>Enrollment at 10,900</u>			
State Match		\$932,708	\$952,319

\*Private donations do not require an appropriation.

**LFD  
ISSUE  
CONT.**

The statute further states that the funding in the account...“is intended to increase enrollment rates for eligible children in the program and not to be used to support existing levels of enrollment based upon appropriations for the biennium ending June 30, 2005.” (53-6-206(3)(a), MCA). The language in the initiative directs “non-supplantation” of existing state matching CHIP revenues with the new cigarette tax revenues.

LFD staff discussed, with legislative legal staff, the meaning of 53-6-2-6(3)(a), MCA. Legal staff concluded that the language is clear. Funds from the \$1 per pack cigarette tax must be used for increased CHIP enrollment above the FY 2005 appropriation level. If the legislature accepts the executive premise that base level CHIP program expenditures be funded from increased cigarette tax revenues, 53-6-2-6(3)(a), MCA should be amended to allow such a use.

*Premium Increase Assumptions*

The executive budget includes annual premium increases of 10 percent for CHIP insurance coverage. This is the first time that an executive request has included premium increases in the budget for CHIP and the legislature has never anticipated such increases.

There are two schools of thought on inclusion of premium increases. First, planning for premium increases can help maintain a known level of CHIP coverage so that HRD does not have to reduce enrollment to fund unplanned premium increases. On the other hand, the insurance carrier may request the full known amount of the premium increase that has been built into the budget, potentially undermining the ability of HRD to negotiate the most cost effective premium.

The legislature may wish to review increase assumptions, particularly in light of the lack of provider rate increases in other areas of the executive budget.

*Sustainable Program*

During past legislative sessions and recently due to the passage of I-149, legislators and interested persons have requested information on the level of state match that would be needed to fully use the federal CHIP grant for a sustainable program.

**LFD  
COMMENT**

Sustainable Program –States receive a fixed annual grant for CHIP that must be matched by state funds, with the state match rate determined by the federal Medicaid match rate. States have three years to fully expend federal CHIP grant funds and then the unspent balance reverts to the federal government. Some of reverted funds have been redistributed to states, with higher allocations going to states that have fully expended their federal CHIP grants.

Montana has reverted about \$9 million of its unexpended CHIP grant authority and is scheduled to potentially receive \$1 million in redistributions in February 2005. During previous sessions, legislators have considered what level of CHIP enrollment could be achieved that would create a sustainable program, meaning that federal grant funds would be used in such a way as to maximize enrollment without creating expenditure levels that would necessitate sudden, unexpected reductions in enrollment due to exhausting federal funds.

A recent report by DPHHS on creating an expanded, sustainable program concluded:

- Enrollment levels could be increased up to 13,900 children annually, for a four year period
- The available federal grant funds would be spent over that time period
- If an increase in federal grant funds or federal redistribution funds were not made available, CHIP enrollment would need to be reduced to a much lower level in FY 2010
- To increase CHIP enrollment by 3,000 children would require fully funding the base budget and additional state funds of \$1,547,308 in FY 2006, and \$1,663,856 in FY 2007
- The estimate includes both the cost of benefits and a staffing increase to serve the additional children

**Children's Mental Health Services Proposed Budget**

The following table summarizes the executive budget proposal for this subprogram by year, type of expenditure, and source of funding.

Sub-Program Proposed Budget								
Budget Item	Base Budget Fiscal 2004	PL Base Adjustment Fiscal 2006	New Proposals Fiscal 2006	Total Exec. Budget Fiscal 2006	PL Base Adjustment Fiscal 2007	New Proposals Fiscal 2007	Total Exec. Budget Fiscal 2007	Total Exec. Budget Fiscal 06-07
FTE	5.00	0.00	12.00	17.00	0.00	12.00	17.00	17.00
Personal Services	150,848	113,432	514,755	779,035	113,256	513,356	777,460	1,556,495
Operating Expenses	989,419	(65)	404,274	1,393,628	(62)	448,130	1,437,487	2,831,115
Grants	0	0	597,918	597,918	0	1,304,061	1,304,061	1,901,979
Benefits & Claims	60,837,251	1,469,120	(875,000)	61,431,371	2,123,530	(850,000)	62,110,781	123,542,152
<b>Total Costs</b>	<b>\$61,977,518</b>	<b>\$1,582,487</b>	<b>\$641,947</b>	<b>\$64,201,952</b>	<b>\$2,236,724</b>	<b>\$1,415,547</b>	<b>\$65,629,789</b>	<b>\$129,831,741</b>
General Fund	12,769,756	482,288	(55,958)	13,196,086	690,683	(54,354)	13,406,085	26,602,171
State/Other Special	233,552	0	0	233,552	0	0	233,552	467,104
Federal Special	48,974,210	1,100,199	697,905	50,772,314	1,546,041	1,469,901	51,990,152	102,762,466
<b>Total Funds</b>	<b>\$61,977,518</b>	<b>\$1,582,487</b>	<b>\$641,947</b>	<b>\$64,201,952</b>	<b>\$2,236,724</b>	<b>\$1,415,547</b>	<b>\$65,629,789</b>	<b>\$129,831,741</b>

The children's mental health function administers Medicaid mental health services for children as well as providing primary DPHHS staff support in the development of a system of care for children. The 2007 biennium budget request grows about \$7 million total funds (\$1 million general fund) over the FY 2004 base budget expenditures. The primary components of the net increase are:

- Medicaid caseload changes that add \$2.5 million total funds (\$1.1 million general fund)
- Federal grant funds for 7.00 new FTE and \$6 million to implement a system of care for children
- Funding for 5.00 new FTE with a net reduction of \$1 million total funds and about \$0.1 million general fund due to anticipated savings in mental health services costs

**Present Law Adjustments**

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget proposed by the executive. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

-----Fiscal 2006-----					-----Fiscal 2007-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				124,445					124,262
Vacancy Savings				(11,013)					(11,006)
Inflation/Deflation				(65)					(62)
<b>Total Statewide Present Law Adjustments</b>				<b>\$113,367</b>					<b>\$113,194</b>
DP 17 - Medicaid Caseload - Children's Mental Health									
0.00	425,604	0	1,043,516	1,469,120	0.00	634,086	0	1,489,444	2,123,530
<b>Total Other Present Law Adjustments</b>									
0.00	<b>\$425,604</b>	<b>\$0</b>	<b>\$1,043,516</b>	<b>\$1,469,120</b>	0.00	<b>\$634,086</b>	<b>\$0</b>	<b>\$1,489,444</b>	<b>\$2,123,530</b>
<b>Grand Total All Present Law Adjustments</b>				<b>\$1,582,487</b>					<b>\$2,236,724</b>

DP 17 - Medicaid Caseload - Children's Mental Health - This request adds close to \$3.6 million in all funds, including nearly \$1.1 million in general fund and \$2.5 million in federal funds, over the biennium for Medicaid caseload growth in the Children's Mental Health program. The increase is 1.34 percent per year, which is much lower than Medicaid cost increases over the last four years. Service reductions and other cost saving measures implemented during the 2003 biennium appear to have slowed cost growth.

**New Proposals**

Fiscal 2006						Fiscal 2007				
Sub Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 42 - Enhance Efficiency of Children's Mental Health Svc 03	5.00	(55,958)	0	(418,384)	(474,342)	5.00	(54,354)	0	(395,714)	(450,068)
DP 146 - Develop System of Care for Children 03	7.00	0	0	1,116,289	1,116,289	7.00	0	0	1,865,615	1,865,615
<b>Total</b>	<b>12.00</b>	<b>(\$55,958)</b>	<b>\$0</b>	<b>\$697,905</b>	<b>\$641,947</b>	<b>12.00</b>	<b>(\$54,354)</b>	<b>\$0</b>	<b>\$1,469,901</b>	<b>\$1,415,547</b>

DP 42 - Enhance Efficiency of Children's Mental Health Svc - This request funds 5.00 new FTE for children's mental health services. The duties of the new FTE would be to monitor contracted services, and to identify and resolve problems. HRD anticipates the new FTE would enhance efficiency of services to severely emotionally disturbed (SED) youth and families through coordination and development of Kids Management Authorities (KMAs), improve treatment coordination planning among multiple agencies, and facilitate problem resolution at the local level. This request is projected to generate savings of \$110,312 in general fund and \$924,410 in total funds over the biennium.

**LFD COMMENT**

Systems of Care – The DPHHS overview includes a discussion of the development of a children's system of care. Children's mental health services administered by HRD are a significant component of the system, particularly since the division manages the major funding stream for mental health services for children.

DP 146 - Develop System of Care for Children - This request adds almost \$3.0 million federal grant funds from the Substance Abuse and Mental Health Services Administration (SAMHSA) that support 7.00 new FTE as well as other functions. This grant is intended to assist Montana in the development of a system of care for children with SED, and to implement and expand local Kids Management Authorities. The grant requires a 25 percent match (either state or in kind).

Four of the FTE would be located in Helena, while the remaining three would be field staff located at local project sights. These staff would carry out the terms of the federal contract/grant, which include administration of the grant, data collection, analysis and reporting, training coordination, social marketing and communication efforts, development of parent advocacy organizations, and improvement of the children's mental health service delivery system for SED youth.

**LFD ISSUE**

Amount of Grant and Match – The executive budget documentation does not indicate where savings will be generated for the grant matching funds. LFD staff has requested clarification about the source of matching funds. Additionally, there is a small discrepancy between the FY 2006 federal funding request and the documentation.

Executive budget documentation provides the following grant amounts and required match: "In FY 2006, the grant amount of \$1,490,665 would be funded by \$1,115,665 federal, \$50,000 state, and \$325,000 cash or in-kind match. In FY 2007, the \$2,490,615 grant would be funded by \$1,865,615 federal, \$50,000 state, and \$575,000 cash or in-kind match."

LFD staff requested documentation as to the source of state matching funds, but did not receive a response from HRD. The legislature may wish to review the source of state matching funds so that it can determine whether and how other program priorities might be affected.